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LM
TO: Judge Webster, DCI

Bin, I'm enclosing a paper
I did for an academic conference.
It forced me to think through
what Gorbachev is really doing
and what the outcome will be.
You may find it useful as a backdrop
for upcoming NIEs and policy
debate on E-W relations.

Bin Odum



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HOW FAR CAN ECONOMIC AND
SOCIAL REFORM GO IN THE USSR?

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HOW FAR CAN ECONOMIC AND SOCIAL REFORM GO IN THE USSR?

A few years ago this question would have inspired little attention outside the circle of specialists and scholars devoted to the study of Russian and Soviet affairs. Today it enjoys broad interest in policy circles in the West, in business circles, and in the mass media. Although the change is largely attributable to General Secretary Gorbachev, the new course in the Politburo of the Communist Party of the Soviet Union was actually initiated under his predecessor, Andropov, temporarily set aside by Chernenko, and reasserted by Gorbachev. Western observers tended accurately to dismiss Andropov as a phony "liberal," but they underestimated his commitment to dramatic change in the USSR. His anti-corruption and anti-alcoholism campaigns, however, did not signal so clearly the extent of the intended transformation as Gorbachev's glasnost (speaking out publicly), perestroika (restructuring), and novomyshlenie (new thinking).¹ The party slogans have prompted unprecedented public criticism and debate about the present state of the Soviet economy and party leadership. At the same time, the turnover in senior party leadership has been greater than any time since the early 1960s.² Because these are not ordinary events in the USSR, the question of economic and social reform has to be taken seriously and urgently if we in the West are to comprehend the contemporary course of Soviet political and economic affairs.

The question itself, however, is fraught with ambiguities and

potential for confusion. The greatest ambiguity is found in the word "reform." Reform for what purpose? In pursuit of whose aims? Whose goals? Whose preferences should a "restructured" economy serve? Central planners' preferences? Consumers' preferences? All consumers or special groups? In short, whose reform?

Gorbachev has not been clear about his own answer to these questions; nor has the Central Committee promulgated a directive that answers them adequately to give us a clear sense of what the party leadership intends. We are left with speeches, proposals, some new laws, and articles, some official, some circulated as SAMIZDAT, from which to infer what is intended under the slogans of glasnost, perestroika, and novomyshlenie. From these sources, Westerners (as well as Soviet citizens) draw different inferences about the aims and methods of reform, some of them incompatible. This is not surprising. If one takes Tatiana Zaslavskaya's criticism of the Soviet economy as the starting point for defining the policy for perestroika, dramatic and systemic reform is to be expected.³ Zaslavskaya's tie to Aganbegyan and Aganbegyan's own views, reportedly shared by Gorbachev, encourage us to make this radical inference. When we read blistering criticism of the unreliability of economic accounting data, we are encouraged to believe that someone at the Politburo level recognizes the information logjam created by central planning and centrally determined prices.⁴ A very recent essay by Nikolai Shmelev removes any doubt about the inadequacies of the system. He declares that all the pricing decisions since the late 1920s

are a "terrible legacy" which must be ended if any prospect of success in the present reform is to be realized.⁵ The implication of these and many other articles is that minor repairs in the present economic system will not suffice; systematic change is imperative.

When one hears Gorbachev himself chide the leadership of GOSPLAN and GOSSNAB, the central planning and supply organs,⁶ one is inclined to believe the General Secretary shares that view. All the more so when he goes on to insist that "We urgently need a fundamental breakthrough on the theoretical front, based on the aggregate facts of social life, on a scientific foundation of goals and perspectives of our movement."⁷ This call for a basic change in economic theory gives us the feeling that Aganbegyan, Zaslavskaya, et al. are succeeding in convincing Gorbachev and the Politburo that the absence of scarcity prices and free play of market forces can no longer be tolerated. But as we read further, we find that Gorbachev wants a theoretical advance like the one Marx achieved from his examination of the Paris Commune and Lenin's advances in the first years of Soviet rule. No hint of Adam Smith, David Ricardo, or any other Classical Liberals who might have inspired the Aganbegyan school of Soviet economists to hold the market place in such high esteem as a means of overcoming the stagnant bureaucracies in charge of Soviet central planning.

On the contrary, the tone of his June Plenum Report is more like Lenin calling for worker discipline and Stalin's lectures, "The Fundamentals of Leninism." Gorbachev envisions perestroika

occurring in several "waves." This is only the first one demanded by the "masses." It is not to be achieved quickly but through a "long-term policy." "The Soviet people understand that the attainment of the many goals of perestroika demand a long time."⁸ Yet they are anxious to see progress. Gorbachev reports that the "toilers" with whom he spoke in one town asked, "When will the perestroika reach us?" The republican, oblast, and local officials accompanying Gorbachev were directed to draw the proper lessons from such questions and move ahead with restructuring. The "waves" of perestroika in the Gorbachev image are stimulated from below. His June Plenum Report emphasizes this role for the masses again and again. How do they demand a "wave" of reform? Through glasnost apparently, through openly voicing their complaints about the present state of affairs, through making their criticisms and desires publicly known.

Who is to respond to these demands from below? Market forces? Entrepreneurs? Hardly! Gorbachev places the tasks squarely on the economic bureaucracy. Moreover, he even asserts a stronger role for the Central Committee Secretariat. "In this new circumstance, the departments of the CC CPSU are called to act in a new way, having a much deeper influence of the state of affairs in republican, krai, and oblast party organizations, ensuring control over the execution of the decisions of the CC CPSU."⁹ In discussing the need for modernization of Soviet machine building industry, Gorbachev calls for more aggressive ministerial action in designing a large-scale program and driving it through from the top. This is not the rhetoric of

decentralization. On the contrary, it sounds more like the language of the leadership in the First Five Year Plan in the late 1920s than it does of a voice for systematic change.

A vagueness characterizes Gorbachev's image of the completion of perestroika. Indeed, it is difficult to discern where he believes he is going, but it is easier to glean his proposed method for getting there. Glasnost is the impulse for movement. It comes from the "masses." It expresses the whole people's interests. Perestroika is the response. It comes from the party's central organs which must develop novomyshlenie, that is, "new thinking" about how to make the system work better, new programs to overcome the old shortcomings. Whether the "quantity," or extent, of restructuring will bring a "qualitative" change in the system of the kind suggested by glasnost voices such as Zaslavskaja's is a question that ought to occur to Gorbachev, schooled as he is in the laws of dialectical materialism. Perhaps he will soon give us his answer, but to date he has not.

We are faced, therefore, with two questions, not one. How far can economic and social reform go if the aim is a qualitative change, giving consumer preferences the major role in driving economic allocations? And, how far can such reform go if the allocation system remains centralized, essentially driven by "planners' preferences?" Some readers will object to this sharp dichotomy as the only alternatives. Indeed, reality usually does not break so neatly into the analytical categories conceived by economic and political theorists, but that does not diminish the

utility of tidy categories for analysis. Rather it suggests that one must be careful to apply these categories where they are conceptually appropriate. The experience of all Soviet-like centrally planned economies, in the many failed efforts at reform, suggests the choices may indeed be a sharp dichotomy.¹⁰ Is there a half-way house between central planning and a market economy that leaves the planners able to ignore grossly consumer demands as expressed in scarcity prices? The ruling Social Democrats in Western Europe have long ago made large theoretical and political concessions to the market place at the expense of central planning. Can Bolsheviks get the advantage of the market place without paying an equal price?

Gorbachev's call for change, nonetheless, offers the opportunity for many alternatives to be presented, and we can be sure that several alternative development policies for Russia articulated by the revolutionaries before 1917 and by parties and factions after 1917 will surface anew, finding contemporary proponents for the "might have beens" of history. Some will be reminded of the New Economic Policy of the 1920s. Some will argue that Burkharin offered a way to industrialize Russia without ending the NEP. Surviving Mensheviks, or their heirs, may feel vindicated in their original conviction that Russia could not skip over a lengthy period of capitalist development. The spate of open criticism of the central planning and pricing system appearing in the Soviet press today seems to prove their point. Others will look at the last decades of the old regime and find renewed interest in the ideas of the Constitutional

Democrats. Constitutionalism, a greater role for private property, but yet a strong state led by like-minded liberals, brooking no breakaway by non-Russian national regions -- these ideas appeal to some Soviet emigres who reject Marxism outright, and possibly to some of the economists in the Soviet Union who so ably indict the present state planning system. Perhaps we shall also hear from old Social Revolutionaries about populism and agrarian socialism, but this seems less likely. Nor should we overlook "national socialism." Variants of fascism were appearing in Russia in the last years of the empire -- The Black Hundreds, for example -- and Pomiat', a recent journal published in Moscow sounds remarkably like that earlier line, one that took Russian nationalism as its spirit and blamed the Jews, Free Masons, and others for contaminating Russian culture. Its economic program, if it can be said to have one, is anti-capitalist.¹¹

No short essay can do justice to all the alternatives for economic development in Russia that have been advanced over the past century and a half. One can, however, see the improbability that any or most of them have a serious chance today if one considers the first question, the prospect for qualitative change in the Soviet economic system. The analytical procedure for this approach requires three steps. First, we must describe the features of the Soviet economic system that prevent it from functioning efficiently. Second, we must state criteria which must be met in order for us to know that systemic change has indeed occurred, that is, objective conditions that indicate

systemic change. Third, we must anticipate the forces and pressures that systemic change would bring to bear on the economy and the political system. They will give us some idea of the risks Gorbachev would face if he chose to implement systemic change.

The Nature of the Soviet Economic Problem

The essence of Leninism is the primacy of the political over the economic. His quarrel with the Russian trade unions at the turn of the century revealed this vividly. "The heresy of economism," as he called it, was the willingness of Russian Social Democrats to support the trade unions in getting better economic conditions for workers while ignoring, even subordinating, the workers' revolutionary consciousness, that is, their determination to overthrow the political system. Better wages were nothing without political revolution. The same spirit of Leninism is apparent in his essay, "What is to Be Done?" He demands a party that can lead a revolution, not one that predicts a revolution and then sits back and waits for it. Certainly revolution in Russia was inevitable in the view of all Marxists, but Leninists believed they could make it come earlier by political action as the vanguard of the revolutionary classes. "Democratic centralism," Lenin's maxim for the party, really meant party dictatorship. The party elite, the central committee, would make the choices. One can debate whether Lenin would have gone as far as Stalin in centralizing economic choice making, but it is difficult to dispute the Leninist spirit of a system that places the party elite in charge of all economic decision-making.

That is the essence of the Soviet economic system. It was designed to reduce the impact of market forces to the minimum practical on the allocation and the use of the factors of production. Land and capital were brought almost wholly under central control. Labor proved more difficult to manage centrally. Trotsky's "labor armies" were short-lived, but the requirement for a passport to live in an urban area provided an administrative mechanism for slowing the flight of labor from the collective farms. Private farm plots, of course, are one case of land left in the free market. Otherwise, land remains in either state or "cooperative" or collective hands which the state is able to direct for production, price, and exchange. All industrial enterprises are under state control. The state tells each enterprise what to produce, where to get its supplies, and to whom to deliver its produce.

For any economy to operate, two functions must be performed. The first is designation of authority over the factors of production. Who controls what land, labor, and capital? The concept of private property and a currency medium of exchange provide a solution to the authority function in Western economies. The second function is the supply of information about what to do with the factors at one's disposal. Market determined prices generally perform the information function in Western economies, even in those where the public sector is quite large. Government directed programs -- both defense and welfare -- are exceptions to be sure, but they are executed with the advantage of considerable market pricing knowledge, reflecting both domestic

and international market demand. Billions of market exchanges contribute to the information and authority functions.

Distortions, obstructions, and the like disturb the efficient execution of these functions, but that is not our subject; rather it is to note how these functions are performed in the Soviet economy.

The simple answer is that they are performed administratively by a central planning organ which acts on the authority of the Communist Party of the Soviet Union. In other words, the center must specify in every sector of the economy who has what authority over what land, labor, and capital. Deeds and private ownership are disallowed. State administrative fiat allocates such authority. The center must also specify what is to be done with all land, labor, and capital -- what each firm will produce, to whom it will deliver its produce, and at what prices. The financial plan of a firm is not the determinant of authority and action. Rather the production plan is. The financial plan is designed to make the production plan work. One does not seek a bigger budget to get more resources in the Soviet system. One seeks a bigger plan, one that requires more supplies and resources to execute. The finances will follow administratively.

Ponder for a moment the administrative task of compiling annually plans for every enterprise in the USSR and ensuring that they are mutually consistent. The information handling requirement for GOSPLAN, the state planning agency, is staggering. Prices are of little help because they have become little more than accounting devices, not a source of information

about scarcity and demand. Suppose by some miracle GOSPLAN worked out a mutually consistent plan and got the economy to implement it accurately, a most unlikely event. In a context of dynamic growth, where new technology and new products appear in great numbers, they become the source of planning confusion and dysfunction. New prices are determined by commissions which try to apply the "labor theory of value." They have not the slightest chance of keeping up, much less providing information in pricing that would allow efficient central allocations of capital.

The most incredible thing about the Soviet economic system is that it works at all. The informal procedures and illegal activities it gives rise to are legion. Without them it would probably collapse. If there is a key to understanding why it succeeds in some respect, the answer is probably found in central control of priority of supply of resources. GOSSNAB, the state supply system, can give some sectors priority. All the others must do with what is left -- usually not much, the wrong things, and poor quality. The military and certain technical sectors do reasonably well because they enjoy top priority. The military is especially distinctive because it has a system of "military representatives," voenpredy, which puts it in a buyer's position, unlike all other sectors. The voenpredy watch every step of production for quality control and do not accept products that fail to meet their standards. All other sectors in the factors market must take what they are delivered, quality and kind notwithstanding.

As the Soviet economy has grown, the absurdity of the

situation has grown. So too has the opportunity for illegal and irregular transactions, a phenomenon usually called the "second economy." The second economy in a sense keeps the system moving, but it also allocates resources quite at odds with the planners' preferences at the center. Cycle after cycle of plan preparation and issuance of production goals has been accompanied by intense pressures on firms from above to meet goals. Short on resources, confronted with irrational and inadequate allocation of supplies, managers have devised more and more ingenious ways of creating the impression of plan fulfillment without creating the reality. The history of Soviet economic development has been a struggle between the preferences of the central planners (i.e., the desires of the party leadership) and the unsatisfactory response to those preferences by management all lower levels.

In Stalin's day, periodic blood purges of the party quickened the sense of formal responsiveness. Successful cheating occurred, sometimes on a fairly large scale, but purges and transfer of party cadres tended to break up the informal cliques that allocated for their own, not planners' interests. Under Khrushchev, blood purges ceased, but administrative turnover of cadres and frequent economic and party reorganization were used as substitute means of struggle against localism. Under Brezhnev, cadre stability became the rule. Reorganization was tried less frequently. The consequences were quite predictable. Informal techniques of cheating the center became more numerous, more sophisticated, and greater in their overall significance for plan fulfillment. What had once been a system conspicuous for its

ability to direct massive resources from one sector to another, for its ability to limit consumption, to keep investment high, and to generate structural change desired by the party elite now has become a lethargic bureaucratic structure presiding over local cliques that easily deceive the center and prevent major shifts in allocations. In many cases, these local cliques have become mixed with national minority interests. Republics get their fair share of new construction, factories, and so on, even if the state planning aims may suffer as a result.¹²

This is the situation Gorbachev faces today. Increasing stagnation, inefficiency, and size of the planning task confront him at a time when rapid changes in technology are causing great structural changes in other industrial economies.

Criteria for Systemic Change

Let us presume for a moment that the Politburo wants systemic change that promises dynamic growth, exploitation of new technologies, increasing factor productivity, and renewal of the aging capital infrastructure. Let us also set aside the question of "whose preferences, planners or consumers?" by answering it, "anybody's preferences if that means dynamic growth and re-capitalization."

The system's weakness clearly lies in the way it handles the two functions, authority over factors of production and information about how to use those factors. The information overload at the center is attested to by many witnesses in the Soviet press today. Western analysts have known it for a long time. Talk about increased incentives for managers and workers

means little until the administrative approach to authority and information is largely abandoned. What then is the alternative? Market forces. Systemic changes must begin with a major relaxation of central planning and central price formation. How much is "major" relaxation? Enough to provide "relative scarcity" information about most of the factors of production. That means a lot. It means that the market sector must have greater influence than the planned sector. It cannot be a marginal relaxation, and it probably must be sufficient to make the ruble a convertible currency.

Our first criterion, therefore, is a major shift to market pricing and allocation, one that lets the market exceed central planning in its impact on aggregate economic activity, one that creates valid scarcity information in prices of most goods and services.

Such a shift to a market economy is not possible without a free flow of information in the media, in banking, in science and technology. Censorship as it has been exercised -- and continues to be even under glasnost -- in the USSR makes such information flow impossible. Vast amounts of such information now is considered in the category of state secrets, classified. The criticality of censorship as an impediment to market activity became clear to the reformers in Prague in 1968. Once they started down the road to genuine relaxation of central planning, once they took systemic economic reform seriously, they found they had to suspend most censorship.

Our second criterion, therefore, is the free flow of

information to a degree required for effective market activity, not only domestic economic activity but also international trade. Without it, domestic economic activity cannot be based on competitive prices, and the ruble is unlikely to become convertible.

The role of the party in economic affairs has always been supreme -- the leading role in all social affairs, as every party General Secretary likes to remind Soviet citizens. The party has always been above the law. In fact, one recent Western study of the role of law in the USSR concludes that it primarily serves to help the party discipline society, to get society to do what the party dictates.¹³ The party, however, is not constrained by law if it chooses not to be.

From the Western viewpoint, where law is generally accepted as a limit on political authority, where law guarantees individual rights, where law is proscriptive -- anything not forbidden is permitted -- the Soviet view of law is upside down. It takes "prescription" as its premise: do what the law dictates; all else is forbidden. Perhaps this is overstated but not by much. The tradition is not entirely original with Soviet power. The crown was never subject to legal restraints in Russia although the October Manifesto came close to achieving limits in 1905. The deeply imbedded spirit of law as prescriptive is captured by Chekhov in his story, "Sergeant Prishibeyev," when the retired sergeant is explaining at his own trial how he dispersed a crowd of villagers. "Disperse! Disperse! Where is the law that allows you to gather here?" he cried. To be sure, law after the Great

Reforms in the 1860s took on a large role in regulating economic affairs. Private property in the Western sense came to have meaning, and a merchant or landowner could be sure that his authority over land and capital was generally protected by law. Not so, of course, in the Soviet Union. No legal claim, especially on property, is above party power, the power of the revolution.

Our third criterion, therefore, is that legal rights over the factors of production, particularly land and capital, must be assured. The party cannot be allowed arbitrary interference. Otherwise the "authority function" for market activity is confused and made uncertain. Economic decision makers cannot be sure about what resources they have or how long they will have them. Contracts must be enforceable. Individuals and firms, including state firms, must be accountable before tort law, and the party must be restricted to appropriation of capital and land only through legally established means such as taxes and eminent domain.

These criteria suggest rather fundamental change, change that would mark a break not only with Soviet tradition but also with traditions that have deep Russian imperial roots. Anything less, however, is unlikely to change basically the economic predicament in the USSR. Yet some of the rhetoric from Soviet policy and specialist circles suggests basic change.

The Implications of Systemic Change

Schumpeter's idea of capitalism as a dynamic and revolutionary force, perhaps more distinctive for its destructive effects precisely because it thrives on innovation, certainly springs to

mind when one contemplates letting market forces drive the Soviet economy. Growth and gains in efficiency are unlikely to be the first consequences. Perhaps the most frightening consequence for the party leadership would be the loss of political power to non-party groups, especially regional and national minority groups. Keeping the union of nationalities together also could prove a greater challenge, requiring larger military and police power, and applying such power would make the economic experimentation too unattractive to abide. Let us set political concerns aside for the moment, nevertheless, and turn to the likely economic behavior.

Initially, at least, small scale enterprises would be those most likely to prosper. Their managers could more quickly adapt to market demands. The scale of change they would require should be more manageable. The scale and proximity of markets they would supply should be smaller, taxing the information gathering capacity of the management less. Gorbachev expressed this concern about agriculture in his June Plenum Report, noting that bringing people more in line with the production they want would lead to many small operations, too small to make modern technology attractive or useable. The same, of course, is likely to occur in much of industry. Shmelev, in his call for systemic change, recognizes this problem for industry but insists that it is a price worth paying. We already have the examples in Eastern Europe, including Yugoslavia, where modest economic reforms have led to large factories being left idle, factories celebrated only a few years earlier as monuments on the road to socialism. Now

they are monuments to party incompetence in economic development.

The concomitant consequence of small scale enterprises is the one Gorbachev recognized in agriculture; new technology will be unattractive if not impossible to apply. Rather than taking advantage of new families of technology that are revolutionizing Western economies, Soviet firms could well prove more resistant to such technology than the present state-run large firms and industrial branches. To be sure, there would be exceptions, and in time, the trend could reverse, but the initial behavior is almost certain to be the contrary.

Large unemployment is likely to accompany the decline of the inefficient firms. Hidden unemployment already exists in the form of poorly used manpower and labor padding. Trying to make a profit, managers surely would also try to cut labor costs. The results will inexorably include large layoffs of labor.

Two more adverse developments in the labor market are likely. The natural tendency of immobility of labor will make it difficult to shift labor radically, as will be required in the economic restructuring. Will Muslims from Central Asia readily move to Russia and the Ukraine to find work? They and many other ethnic, social, and religious groups are likely to resist movement. At the same time, quality of labor will become a larger problem. Market activity will require new skills. While labor may be available, it will not have the requisite skills for jobs most abundant. Although the technical-cultural level of the labor force has long been a problem, mass literacy and elementary education have changed dramatically the nature of the labor force

as compared to pre-WWII. Nonetheless, automation, greater introduction of Western production technology based on computers, will require a significant additional improvement in labor training and basic education.

Another potentially troubling aspect of labor mobility is the migration from rural to urban areas. Some collective farm workers might well take the opportunity to move to the city, and a few decades ago they certainly would have swarmed to the cities. The Soviet leadership, of course, has controlled the urbanization process through internal passport requirements, moderating the flow at manageable level. The seven decades of Soviet rule have witnessed a major demographic shift to the cities so that the old pressure is somewhat reduced, but a free market agrarian economy might still exert pressures on villagers to leave the village for urban employment. That would certainly be the case if technology introduced in farming has the intended effect of greatly improving productivity. Surplus labor would accumulate in the countryside. Depending on when this occurred and at what rate, the problem could prove manageable, even desirable if industry eventually restructures under market forces and begins to prosper, requiring more labor.

If one considers the present white collar work force in the USSR, it is mainly composed of bureaucrats and production engineers. Production oriented skills will be all the more in demand if a market economy is allowed in the industrial sectors. The planners and clerks in the super-ordinated planning and management hierarchies -- the economic ministries, GOSPLAN,

GOSSNAB, and the Central Statistical Agency -- will have no jobs. Their roles will go away. At the same time, the need for a new white collar and professional class will be critical to the success of market economy. Marketing specialists, salesmen, advertisers, and sales researchers are skills not widely needed or taught in the centrally planned Soviet economy. A systemic change, however, would put them in high demand. Yet there is no educational infrastructure to train them.

The same would be true of management skills for directors of firms competing in a market environment. The old Soviet manager, his "bookkeeper," his other colleagues in the management system -- party official, "special section" (KGB), trade union chief -- are not the kind of people who will easily make the shift to market economy requirements. This, of course, is at the firm level.

Another but similar problem confronts the financial sector. Banks and those who look after the "financial plans" would be facing a wholly new kind of task. Financial accounting and planning in the USSR does not drive decisions about resource allocations. It follows the production planning, making sure that money relations expressed in contracts and labor costs are coordinated with the requirements of the production plans. As the market forces came into play, those in the financial sector would have to play the key role in major capital allocations. Their money allocations would become the determinants of production planning, not vice versa. Investment banking is an alien activity in the USSR. Yet financial institutions would have to take on that function. Gorbachev spoke at the June Plenum about the major

modernization effort required in the machine building sector, about the importance of the ministries in coordinating and leading this effort. If the market were to play this role, financial institutions would be key in raising and loaning capital, not ministries.

A sense of the intractability of this financial planning problem for an economy trying to shift from a dominant state planning role to a market system is evident in Egypt in the last decade. An American consultant to the Egyptian government told the author in considerable detail about the extent to which many Egyptian officials seem to have internalized Soviet planning techniques. Whether they did not like the anticipated consequences of market-oriented analysis for investment decisions or simply could not understand such analysis, they resisted it strongly after having agreed in principle to accept it. Again and again he confronted non sequitur reactions to analysis concerned with market forces and scarcity prices as the Egyptian officials resorted to concepts of "material balances" and similar Soviet categories. We can only assume that the problem in the Soviet Union would be many times more difficult. Gorbachev's "new thinking," if it means this kind of change, will indeed take a long time.

Another adverse development most likely to confront a shift to a market system is inflation. A great deal of pent up inflation already exists. Letting consumer demand drive production, of course, would create initially a large demand at the very time production is likely to fall in the process of restructuring. The

old Bolshevik description of this phenomenon during NEP, a "goods famine," would be particularly appropriate once again. The party's reaction to it at that time was fright.

A Soviet market economy might be maintained isolated from the world economy, but that does not seem to be Gorbachev's intent. On the contrary, the new laws for joint ventures with Western entrepreneurs suggest that he believes more, not less, economic interaction with the West is necessary. What are likely to be the consequences of a greater free market interaction with the West? Traditionally, students of economic development have told us that developing countries should borrow from the advanced economies in order to import modern technology for industrialization and should try to pay off the loans with exports of their commodity sectors -- agricultural and mineral. Russia has traditionally tried this approach, especially with the export of grain and oil, also some furs, timbers, minerals, and other such products. Today, however, commodity prices have fallen in relation to industrial prices, and they show little sign of coming back to former levels. Much of the large Third World debt is evidence of this new phenomenon. The USSR has not been able to avoid all of the effects of this "uncoupling" of industrial and commodity prices.¹⁴ Its hard currency reserves have dropped as oil prices have dropped. At the same time, the Soviet Union has long ceased to be an agricultural exporter of significance and has become dependent on large grain imports. The present world economy, therefore, is not likely to treat the USSR kindly if she enters it and also opens her doors to world market forces. There never was much prospect for large

mutually beneficial East-West trade even in the hay days of the early 1970s. Today the prospect is dim indeed.

Many more purely economic disorders and pressures could be listed, but the above set should suffice to illustrate the magnitude and variety of the forces a shift to a market system would unleash. It might be possible, given a sustained political consensus behind the policy of such a shift, to schedule some of the change so that all the disorders do not occur in their full effect at the same time. In other words, in spite of the dysfunctions, a strong argument could be made for the shift in any event. The costs would be worth paying for the future advantages of an equilibrium of market forces achieved after several years of serious disequilibria. Shmelev, who shows a full awareness of most of the probable disequilibria, comes down firmly on the side of accepting them. Other consequences are perhaps more serious in the minds of Soviet leadership.

The most fundamental consequence would be the inherent shift of political power. The party, especially its elite, the nomenklatura, would be, by and large, disenfranchised. The present system allows, or ensures, that for the most part their "preferences" drive economic activity. They have preferred heavy industry, military consumption, and a privileged system of consumer product distribution for their own small circles. They have preferred this in the face of great inefficiencies, even economic stagnation. They have preferred the political stability it affords in a highly fragmented and bifurcated polity. They have preferred the control it affords over client states,

especially in East Europe. Consider some of the possible developments that letting market forces loose are almost sure to bring.

There has always been concern in Moscow about centrifugal political forces in the national minorities. A shift of the rule of law would give them the legal option, under the constitution of the USSR, to secede, to leave the union. As Baltic republics had more economic success in market circumstances, as they probably would, why should they not go their own political way? Why would the republics of the Caucasus not do the same? In the present system, inefficient though it is, party elites from several of these republics have learned to take advantage of it.¹⁵ One of the curious developments under Brezhnev has been this Soviet cohesive behavior by minority national bureaucratic elites. The pressure for national separatism comes almost entirely from the small set of national literary intelligentsia, from writers and artists interested in cultural identity. They pose little political threat to Moscow, although they are an irritant the party does not neglect. The effect of market forces might well bring an alliance of these feckless groups with the more powerful political and economic apparatchiki in the Baltic and the Caucasus, and possibly in the Ukraine and the Central Asian republics. Victor Shlapentokh, a Soviet emigre sociologist, has already noticed the incipient fragmentation along national lines that Gorbachev will have trouble controlling.¹⁶ Not only the minority nationalities but also the Russians are showing an uncharacteristic articulateness on ethnic issues. Centrifugal

forces along national and ethnic lines, it seems, are already increasing without a major shift to a market economy.

Another development that is bound to confront the leadership will concern the large allocations traditionally granted the military. In the long run, an economy restructured systemically to respond to market forces should provide a better scientific and technical base for military production. In the short run, however, consumer demand would make it impossible for the regime to continue the old priority for military spending. In the past the party has been able to cut the military sharply. In 1921-23, a radical reduction of the Red Army occurred, forced by the party and resisted by many of the rank and file military who did not want to return to the village. After WWII, Stalin forced another large cut in manpower in the military. Those were special circumstances where the army was exhausted and needed new and modern equipment. The military leadership could agree with the party that sacrificing contemporary military power for greater future military power made good sense. Perhaps that could be done again, but the circumstances are different today. A large modern force is extant. Military commitments are large. Would not a dramatic cut carry unacceptable risks? Could the Warsaw Pact states be kept under control with a large reduction in Soviet standing forces? Real savings from the military sector would not come from the strategic forces and advanced weapons production sectors. Rather the major resources, unproductive resources, are in the large ground forces, air defense forces, and naval forces. The present arms control negotiations do not address these

categories. They concern the high-technology categories, those sectors where the military industrial support for them is the most modern part of the Soviet economy. The "military question" has always figured centrally in Soviet policy -- economic, social, and political. It remains no less central today, and in many respects it is more difficult to answer differently today than in the past, even if the economy seems to warrant a different answer. Military "demand" on the economy has probably done more to achieve the level of modernization in the economy today than any other. Central planning of the economy has been the key to this development. Dismantling central planning would not only raise the question of military security risks but also the issue of whether the advanced military-industrial sector would stagnate and slip backwards. The facile argument that military spending hurts economic growth in all economies is simply not born out in the Soviet experience, or in the case of many other states. In some cases it seems to hurt; in others economic growth and high rates of military spending have gone hand in hand.

Finally, the regional political elite, the party apparatchiki and the economic apparatchiki, would risk major disenfranchisement in the face of market forces being unleashed in the USSR. How would they react? Certainly they would not surrender their privileges quietly. A strong and consolidated super-elite -- the Politburo, the Central Committee apparatus, and the KGB -- would have to contain them and defeat them politically. Such control is not unprecedented. Stalin defeated them in the 1920s and the 1930s, but the aim in those instances was centralization of

economic controls, not decentralization. We cannot say, a priori, that it is impossible. In fact, it would be essential if reform is to succeed.

Gorbachev's effort to build a coalition in support of his program for perestroika is instructive on this point. He has drawn much of the intelligentsia into an alliance. He has encouraged them to express compelling arguments why dramatic change is imperative, why an economic crisis is at hand which cannot be overcome with old ways of thinking. He has even gone far in trying to gain support from the Western press and opinion makers for his perestroika, an unprecedented step for a General Secretary. Heretofore, Soviet dissidents have drawn on Western opinion to support their cause against the regime. Today we are witnessing the curious spectacle of Gorbachev taking their gambit for use in his own struggle against the entrenched bureaucracy.

The paradox remains, nonetheless, that great central control is required to achieve a great decentralization of economic control and power. If Gorbachev succeeds, he will lose his centralized power to forces that could undercut the political authority of the regime to a degree that could cause the breakup of the empire. The risks and uncertainties of such a course make one wonder if that is really what he has in mind. It must be if he intends truly systemic change. If it is not, he cannot get systemic change. This paradox must be clear to Gorbachev; if it is, he surely does not intend systemic change. That brings us to consider the second question: how far can reform go if the allocation system remains centralized, essentially driven by

"planners' preferences?"

What is Possible Short of Systemic Change?

Periodically it is suggested that the Soviet Union should take a lesson from the experience of East European economies in order to overcome the dysfunctions of the highly centralized Soviet planning system. The Hungarian model and the East German New Economic Model are often cited in this regard without examining the realities of these models in practice. The good press these cases have enjoyed in the West is somewhat surprising in light of what they have actually achieved. Furthermore, the context of these economies is so different from the Soviet economy that the performance advantages they enjoy are difficult, if not impossible, to transfer to the Soviet Union.

In the East German case, bureaucratic and worker discipline is easier to sustain at fairly high levels for cultural and structural reasons. The German work ethic is quite different from the Russian work ethic. If all Soviet bureaucrats and workers could be imbued with the German work ethic, indeed a better economic performance might emerge in the Soviet system, but it would be a one-time gain. A work ethic cannot substitute for private property and market prices in the authority and information functions if an economy is to be dynamic, adapting to new technology, new demands, and structural change. That is abundantly clear from a comparison of the East German and West German economies.

Moreover, interzonal trade in Germany insures a large subsidy for the East German economy. The New Economic Model owes as much

to this source of capital and trade as to any inherent feature of East German planning technique. The Soviet economy simply has no equivalent of this sustained subsidy.

The Hungarian system has released authority over small parts of the economy, but in almost every case central authorities have set severe limits, often taking back much of the authority. Jan Prybyla's review of the Hungarian case makes clear the modest degree of decentralization in Hungary and the measures retained to ensure central control.¹⁷ As declining Western loans and unfavorable export markets have come to bear on Hungary, so has the cost of central controls. The outlook for the Hungarian model is hardly a source of inspiration for Soviet planners.

Perhaps the most significant reasons for doubting that East European experiences can show the way for Soviet reform is to be found in the remark a Soviet official made to the author in a lengthy discussion of the Soviet predicament a number of years ago. Why not borrow from the East European experience? He explained that the East European economies are small; they do not have to carry the Soviet responsibilities for a bail out in the event of catastrophic failure. They can experiment, get into trouble, and, if necessary, the Soviet army can invade them to restore socialism. Who will rescue socialism in the USSR if an economic experiment gets out of control? The political and security context of reform in the USSR is qualitatively different from that context in any Soviet client state.

What about previous Soviet experience? Does it provide a basis for the present situation? The New Economic Policy of the

1920s, of course, is the single example that might have relevance. Some Western scholars may argue that a return to NEP is a viable alternative. Private agriculture could be introduced along with small enterprises in the service and consumer goods sectors. The heavy industrial sectors could be retained under central control, keeping the party in charge of what Lenin called the "commanding heights" of the economy.

Gorbachev has already had an unfortunate experience with the agrarian sector when, as chief of Soviet agriculture, he let the private sector grow. As he noted in his June Plenum Report, it posed a dilemma. Small plots do not encourage the introduction of new technology on the scale needed for a major improvement. Furthermore, the industrial sectors are now in serious trouble. How would their woes be improved by NEP? In the 1920s, industrial growth came largely through reconstruction of the war-torn economy, and as reconstruction came to completion, the prospects for continued growth looked bleak. The problem for Gorbachev today is not reconstruction. It is over-construction and inefficient construction in a very large economy, a many times larger industrial sector than existed in the 1920s. NEP simply does not offer a happy alternative. The context today is fundamentally different.

Anthony Sutton has traced an interesting correlation between influxes of Western technology with spurts of growth in the Soviet economy.¹⁸ Trade with the West during the 1920s was followed by growth in the 1930s; help from the West during WWII and the transfer of capital stock from defeated Germany after WWII

provided the second influx which was followed by growth in the 1950s. The slowdown in growth in the 1960s was followed by detente and renewed East-West economic interaction in the early 1970s. The expected growth has been less certain, but performance in the military-industrial sector has been significant, even spectacular. A correlation, admittedly, is not sufficient evidence alone to infer a causal relationship, but the Soviet-sustained interest in keeping economic interaction with the West as high as possible suggests that Soviet planners believe the causal relationship exists.

The new Soviet law on joint economic ventures with the West looks, against this historical background, like one more attempt to salvage central planning with a new influx of Western aid. Let us set aside the issue of the probable effectiveness of new joint ventures -- although initial examination of the rules for such enterprises suggests pessimism -- and considers them as a gambit for shoring up the present system. If they lead to large Western investments on the scale of the Kama River project in a number of key industrial sectors, they could create pockets of improved manufacturing capabilities. They might give the Soviet computer industry a boost. They might help in communications technologies. And they might introduce new production organization and management techniques. They will not, however, ameliorate major problems in energy, transportation, and labor allocations. They will not reduce the information overload problem in planning and price setting.

In addition to joint ventures, of course, a political climate

adequate to stimulate large Western credits would also be required for any significant gain from renewed economic relations with the West. To be sure, such a climate may come about, and much enthusiasm in Western economic circles may help generate another influx of Western aid. If it is large enough, for a time Gorbachev might see moderate improvement in the present system's performance. In a few years, however, the inherent inefficiencies of the system would again appear in their old nagging forms, revealing that no real solution had been found.

That day of reckoning can be postponed, nevertheless, if the bureaucracies in the ministries and firms can be made more responsive. How could that behavior be achieved? In the past it was achieved through personnel purges, through turnovers in cadres that broke up informal groups and cliques which grew up to resist and cope with the economic directions from the center. Under Stalin the purges were bloody. Under Khrushchev they were administrative, often introducing confusion and disorder. Under Brezhnev they ceased. The nearly two decades of Brezhnev's rule allowed thousands of such cliques and circles to exist and to grow. They produced statistics for the center and allocated an increasing part of the state resources for their own interests. The "second economy" reached a scale probably much larger than Western analysts perceived, probably greater than Soviet central planners have been able to measure.

The new factor in the Soviet political and economic equation today is a fairly broad recognition within elite circles, especially the intelligentsia, but also in higher party circles,

the military, and the KGB, of the general predicament of the system. They want improvement. They know they must have improvements if the economy is to be directed away from its present course. They are a source of support and enthusiasm for change, but how can they be harnessed for this purpose without giving them too much leeway in defining the aims of reform?

An inchoate image of Gorbachev's answer to the question is apparent in his three slogans, glasnost, perestroika, and novomyshlenie. Glasnost is a call for these elites to express the political demand for change. As their expressions of criticism lay greater and greater blame on obstinate bureaucrats and officials at middle and lower levels, even at high levels in some cases, the public also joins the chorus. The public discourse cannot be carried on at level of comprehension of economics that we are reviewing the Soviet system here, not even at the level Aganbegyan and Zaslavskaia carry it. Rather, it already is turning to questions of persons, people who are the cause of the problems, unresponsive officials and party leaders. In this climate, "restructuring" is offered by Gorbachev as the solution. Gorbachev and his aides retain the discretion to define this ambiguous term as they choose, and one aspect of the definition clearly includes changing cadres in bureaucracy at all levels. "Restructuring" can also include reorganization, new processes, but its most conspicuous manifestation to date is turnover in cadres. In other words, it is a purge, a purge of new type, a renewal of cadres, a revitalization of appartchiki and party officials.

Why, one may ask, should Soviet elites and the public believe new apparatchiki will behave any differently than their predecessors? Gorbachev's answer is clear: they will indulge in "new thinking." They will abandon the old ways, i.e., corruption, second economy activities, and abuse of privileges. Again, one is reminded of Stalin's lectures, "The Fundamentals of Leninism," in which he defined the "style of party work" as new, a combination of "Russian revolutionary sweep" with "American efficiency."

If this is Gorbachev's scheme, how far will economic and social reform go? How far can it go? Again, we are confronted with the question, whose reforms? Whose image of the future? Whose economic preferences? It seems more and more clear that Gorbachev himself does not intend systemic change. He is exercising with remarkable energy and cunning the system bequeathed him by previous General Secretaries. He is struggling to regain the vitality the system once had but which especially Brezhnev, and also Khrushchev, let slip into decay. If we mean by reform a significant improvement in standard of living for Soviet citizens and increased protection of their individual rights under law, that kind of reform cannot go very far. If it were to go far, it would involve systemic change, the kind of change Gorbachev does not want.

What seems to be shaping up, therefore, is a political contest initially between Gorbachev and his allies on the one hand and the entrenched bureaucracy on the other hand. To the extent Gorbachev wins that contest and installs a new set of bureaucrats with new energy and more responsiveness to central direction, he

will slow the decline of the economy, perhaps even improve some limited sectors. To win he must also have success in drawing resources from the West on a large scale. At the same time, another contest is also shaping up between Gorbachev and his allies, the intelligentsia, and others who are taking advantage of glasnost to register their own preferences about change, about what perestroika will include.

As observers we must not forget the first contest although the second may prove more exciting to watch. Gorbachev has certainly renewed the Politburo and the Central Committee as well as a number of regional party organizations. He has not, however, had much success against the Ukrainian party, the one he must crack if he is to succeed in a genuine renewal of cadres. The second contest, however, could turn out to be the most significant, particularly for its unintended consequences.

Unintended Consequences of Glasnost

Glasnost as a policy has generated behavior in the Soviet Union most Western analysts would have never believed possible. The kinds of criticism voiced in the press, on the stage, in films, and in public demonstrations are truly unprecedented. Proposed "restructuring" by the party has touched on all three of the criteria we cited above as tests for truly systemic change in the USSR. The central planning and pricing problem, a wider role for law, and greater freedom from censorship have been key issues in the public debate and in some new policies.¹⁹ Thus far they have remained largely in the domain of glasnost, only foreshadowing perestroika. The mere fact that they have gained

attention, however, tells us these are not ordinary times in the USSR. Fundamental tensions are near the surface, tensions that go to the very heart of the system's continuing viability.

Can the leadership put the lid back on the voices of glasnost that do not accord with Gorbachev's image of perestroika? Probably, but it is difficult to see how the lid can be put back as securely as it was before. Certainly it can and most likely will be put back on the broad masses, but the intelligentsia is another matter. Gorbachev has gone quite far in attracting the intelligentsia as an ally in his campaign for system revitalization. The act of bringing Andrei Sakharov back from exile in Gor'kii and allowing him to appear on American television is a measure of the distance the General Secretary has proven willing to go. He is telling the Soviet intelligentsia, both in the USSR and the emigrees, that they can join his campaign -- de facto a purge of the bureaucracy. Many have accepted the invitation, but not all, particularly some who have emigrated. If the campaign does not yield results congenial to those who have joined, what will they do? How will they react? Can they simply be silenced?

Without returning to another period of Great Terror, Gorbachev will find it virtually impossible to close down the activity of a disenchanted intelligentsia. In light of the limited prospects for systemic change, the intelligentsia will almost inevitably turn sour, become embittered, and give up on perestroika, confronting Gorbachev with precisely the dilemma of resorting to comprehensive repression or toleration of unprecedented levels of

dissident activity.

Not all the intelligentsia will abandon the regime in the event of disillusionment. Many will remain within; they will understand the risks of political instability that would go with a bold move to systemic change. They will see the dangers of fragmentation along nationality lines. They will share the party fears of losing control of the empire in East Europe. They will accept order and severe curtailment of individual freedom as preferable to the uncertainties accompanying a genuine political transformation.

We are suggesting that the great unintended consequence of Gorbachev's policies will be both the disillusionment of the intelligentsia and its polarization into two camps. One camp will stay with the regime, making cogent arguments that there is no practical alternative to maintenance of the old system. The other camp will give up all hope in evolutionary change within the regime and turn to radical opposition, articulating counter ideologies calling for the dismantlement of the regime.

Some observers might argue that this polarization has already occurred. The generation which witnessed the thaw in the 1950s has been through a period of hope that was ended with the Daniel-Sinyavskii trial and the invasion of Czechoslovakia. Vasilii Aksyonov, the emigre novelist who was a key leader in the publication of Metropol, a document intended as one last try at bringing the regime around, propounds this thesis in his occasional lectures. Other recent emigres seem to share such a view; they see glasnost merely as a ruse to gain their support,

not as a serious new opportunity. Their arguments are compelling, and they are not incompatible with our argument here. As Sakharov and others still in the Soviet Union see themselves used by Gorbachev without significant gains for their own aims, they will likely join the ranks of the wholly alienated.

Polarization of the intelligentsia in Russia is not a new phenomenon. It happened in the 19th century during the reign of Nicholas I. When genuine reform was tried by Alexander II, the distrust was too great among the radicals. They used the relaxation of police oppression to widen their activities against the regime, giving the Autocracy many good reasons for resorting periodically to crackdowns, to vicious police oppression. They did not join the zemstvo movement for local government. They did not support the incipient industrialization that was showing promise in the last decades before WWI. Their counterparts inside the regime used their intellectual talents in support of repression. At the very time when constitutionalism had prospects for success, both wings of the Russian intelligentsia worked against its success.

If our prognostication for the future of political and economic reforms in the Soviet Union is correct, one is tempted to say that history is repeating itself. In some regards the analogy holds, but there are significant differences. The ethnic minorities are more articulate today. They too have intelligentsias which will participate in the polarization. The East European states are entangled in Soviet developments in a way for which there is no 19th century counterpart. To be sure, there

was a Polish problem, but there was no Polish state, and the other East European nationalities were struggling against other imperial regimes. The level of mass literacy is also different today as well as the social structure -- size of the industrial working class, size of the scientific elites, and character of the rural social structure.

We should also not forget the potential role of the military today. A large, well educated, officer corps exists, unprecedented in both Russian and Soviet history for its technical-cultural level. Will it be able to remain unaffected by the split in the non-military circles of the intelligentsia? We know less about the military in this regard than any other group, but the implications of a polarization there are truly profound. Disaffected officers are a qualitatively different kind of problem from disaffected scientists, writers, and students. They have leadership and organizational skills that could give a radical movement explosive potential.

Gorbachev has set in motion many forces in the USSR. A few signs of drawing them back are apparent, but if they are abruptly curtailed, all prospects of success for perestroika is destroyed. Yet, giving them vent carries all the dangers we have identified.

Conclusion

We remain uncertain about the true aims of the present steps toward reform in the USSR. Is Gorbachev bent upon a fundamental change in the system? If he is, the chances that he can control it are small, virtually nil. A half-way house between a centrally planned economy in a fragmented polity and a market economy does

not seem to be a real option. We saw that in Czechoslovakia in 1968. Once the system of central controls begin to dissolve, it proved impossible to retain censorship, party control, and arbitrary use of the law. The case of Poland is the same although the game is still being played out. The regime has not vanquished the opposition, but neither has the opposition brought about systemic change. Without the shadow of the Soviet military over Poland, it is doubtful that the regime could survive. In the USSR, letting the forces for change have full sway would call into serious question the territorial viability of the union. Gorbachev surely does not share Sozhenitsyn's view that the nationalities should be let go.

We are forced, therefore, to infer a more limited aim on Gorbachev's part, a revitalization of the old system. And we can discern in his formula, glasnost, perestroika, and novomyshlenie, an old political strategy with roots in the Stalin and Khrushchev eras. It does not envision the abandonment of socialism and international class struggle. It looks much more like a new variant of "peaceful coexistence," an effort to continue to build socialism within the Soviet camp through greater economic interaction with the industrial states of the West, meanwhile continuing the international class struggle in the Third World and cultivating "progressive" social forces in the West.

The most interesting, and perhaps the most significant, outcome of this new variant of an old policy is likely to be the further polarization of the intelligentsia when disillusionment sets in. Russian history can be instructive in helping us

anticipate this development, but it will have new dimensions, new consequences, and new dangers. As we watch it, we can only be saddened by the tragedies and hardships it may bring great peoples on whom history has already heaped many painful burdens, not least the Russians.

NOTES

1. Glasnost literally is the substantive from the verb, glasit, meaning "to say," and as a noun it connotes speaking out publicly, being heard. Perestroika, meaning "restructuring," is less ambiguous in translation but has a more complex connotation in Russian. Novomyshlenie translates literally as "new thinking," a responsibility Gorbachev places on the party and state leading cadres for abandoning their old work style in favor of a new effective style.
2. Thane Gustafson and Dawn Mann, "Andropov's First Year," Problems of Communism, 35 (May-June, 1986), 1-18, provides excellent data on this turnover.
3. T. Zaslavskaya, "Doklad o neobkhodimosti bolee uglublennogo izucheniia v SSSR sotsial'novo mekhanizma razvitiia ekonomiki," Arkhir Samizdata, Radio Liberty, AS No 5042, 26 August 1987.
4. Vasilii Selyunin and Grigorii Khanin, "Lukavaia tsifra," Novyy mir, No. 2 (Feb. 87), 181-201.
5. Nikolai Shmelev, "Advances and Debts," Novyy mir, No. 6 (June 1987), 142-58.
6. Pravda, June 26, 1987.
7. Ibid.
8. Ibid.
9. Ibid.
10. See Jan Prybyla, Market and Plan Under Socialism (Stanford, CA: Hoover Institution Press, 1987).
11. See my "Soviet Politics and the Dustbin of History," Studies in Comparative Communism, IX, (Spring/Summer, 1976), 187-208, for more on the "might have beens" of Soviet history.
12. Konstantin Simis, USSR: The Corrupt Society (New York; Simon and Shuster, 1982), is an excellent first hand account of way local and regional leaders cheat the center. Walter D. Connor, "Social Policy under Gorbachev," Problems of Communism, 35, (July-August 1986), 31-46, provides a good insight into recent social and economic dynamics confronting the center. Abram Bergson, "Toward a New Growth Model," Problems of Communism, 22, (March - April 1973), 1-9, offers one of the best early assessment of the troubles confronting the Soviet economy. Nikolai Shmelev's essay, op.cit., is the best Soviet assessment of the overall predicament of the Soviet economy and the gross dysfunctions it imposes.

13. Olimpiad S. Ioffe and Peter B. Maggs, "The Soviet System: A Legal Analysis," National Council for Soviet and East European Research, No. 800-21, October 1986.
14. See Peter Drucker, "The Changed World Economy," Foreign Affairs, 64 (Spring 1986), 768-791, for the concept of "uncoupling" of this relationship.
15. See Konstantin Simis, op. cit., for examples of the corruption among minority national elites and the stake they have developed in the system under Brezhnev.
16. See his manuscript, "An End of Affirmative Action in Russia?" Unpublished, April 16, 1987.
17. Op. cit. pp. 211-245.
18. Anthony C. Sutton, Western Technology and Soviet Economic Development, Vols I, II, III (Stanford, CA: Hoover Institution Press, 1971, 1971, 1973).
19. Three recently promulgated laws are particularly noteworthy. The USSR Law on State Enterprises, published in Izvestiia, July 1, 1987, sets forth the legal basis for economic accountability of enterprises, giving them remarkably wide latitude in hiring and firing labor, in setting wages based on performance with no maximum limit on earnings, in contracting with suppliers and buyers, in accumulating savings, in setting prices within centrally determined guidelines, and in rejecting goods from suppliers when the quality is below standard. Enterprises that do prove profitable, i.e., able to meet their debts, can be declared insolvent by the banking authorities. Enterprises may also establish ties with foreign firms, accumulate foreign currency, and execute contracts with foreigners. Precisely which enterprises will operate under this law is to be determined by the USSR Council of Ministers. Central reporting of performance data and planning within the state annual and five year plans remains obligatory however. The second law, "USSR Law on the Procedure of Appeal to the Courts Against Illegal Actions by Officials Encroaching on Citizens' Rights," gives citizens a means for holding Soviet officialdom to account when their rights are abused. It does not, however, touch the matter of private property rights in the Western economic sense. Finally, a "USSR Law on Nationwide Discussion of Important State Issues" makes it imperative that laws in draft at the Union, Republic, and local Soviet levels must be aired for public discussion. It is too early to assess the likely impact of these laws, but they are of great potential significance, especially the law on enterprises. While it goes far, it does not dismantle central planning.